

**RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA**

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA
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Independent Auditor's Report

Board of Directors
Rural Water Management District No. 15,
Osage County, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water Management District No. 15, Osage County, Oklahoma as of June 30, 2013 and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the District's management.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Rural Water Management District No. 15, Osage County, Oklahoma, as of June 30, 2013; the changes in financial position; and cash flows for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

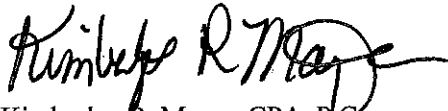
Other Matters

Required Supplementary Information

Rural Water Management District No. 15, Osage County, Oklahoma has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basis financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basis financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2013 on our consideration of Rural Water Management District No. 15, Osage County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Kimberly R. Mayer, CPA, P.C.
Blackwell, Oklahoma
December 18, 2013

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
Rural Water Management District No. 15,
Osage County, Oklahoma

We have audited the financial statements of Rural Water Management District No. 15, Osage County, Oklahoma as of and for the year ended June 30, 2013 and have issued our report thereon dated December 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water Management District No. 15, Osage County, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water Management District No. 15, Osage County, Oklahoma 's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water Management District No. 15, Osage County, Oklahoma 's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water Management District No. 15, Osage County, Oklahoma 's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

Rural Water Management District No. 15, Osage County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water Management District No. 15, Osage County, Oklahoma 's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Kimberley R. Mayer", is written over the printed name.

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
December 18, 2013

RURAL WATER MANAGEMENT DISTRICT NO. 15, OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013

Material Weakness Communicated In Prior Year:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria:

The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition:

Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; and maintaining billing registers. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause:

The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect:

Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the water billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation:

The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response:

The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS

Current Assets:	
Cash and cash equivalents (Note 6)	\$ 288,595
Certificates of deposit	744,498
Accounts receivable	145,986
Prepaid expenses	39,762
Inventory	65,336
Notes receivable (current portion)(Note 5)	10,494
Total Current Assets	<u>1,294,671</u>
Restricted Assets:	
Loan reserve accounts	29,763
Other Assets:	
Intangible assets (net of accumulated amortization) (Note 3)	855,783
Deposits	1,189
Total Other Assets	<u>856,972</u>
Non-current Assets:	
Capital assets (net of accumulated depreciation)(Note 2):	
Property and equipment	6,276,844
Construction in progress	35,268
Notes receivable, (noncurrent portion)(Note 5)	493,851
Total Noncurrent Assets	<u>6,805,963</u>
Total Assets	<u><u>\$ 8,987,369</u></u>

LIABILITIES AND NET POSITION

Current Liabilities:	
Accounts payable	\$ 134,748
Notes payable (current portion) (Note 4)	127,443
Total Current Liabilities	<u>262,191</u>
Non-current Liabilities:	
Notes payable, long term (Note 4)	3,404,306
Total Non-current Liabilities	<u>3,404,306</u>
Total Liabilities	3,666,497
Net Position:	
Net investment in capital assets	3,636,146
Restricted for debt service	534,108
Unrestricted	1,150,618
Total Net Position	<u>5,320,872</u>
Total Liabilities and Net Position	<u><u>\$ 8,987,369</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER MANAGEMENT DISTRICT NO. 15
OSAGE COUNTY, OKLAHOMA
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013

Operating Revenue:	
Water service	\$ 1,502,930
Service fees	66,215
Late penalties	15,152
Other revenues	29,955
Total Operating Revenue	<u>1,614,252</u>
Operating Expense:	
Wages	320,001
Payroll taxes	27,689
Employee benefits	113,341
Water costs	576,643
Advertising, promotion & memberships	5,268
Service charges	6,099
Fuel	23,770
Repairs and maintenance	52,485
Insurance	43,658
Licenses, fees & permits	22,788
Professional fees	42,909
Bad debts expense	6,931
Office and postage	34,962
Meetings, training & travel	8,077
Utilities & telephone	54,720
Other expenses	12,648
Depreciation	200,411
Total Operating Expense	<u>1,552,400</u>
Income (Loss) From Operations	61,852
Non-operating Revenue (Expense):	
Gain on sale of assets	9,160
Interest income	38,983
Membership fees	70,000
Interest expense	(121,353)
Total Non-operating Revenue (Expense)	<u>(3,210)</u>
Change in Net Position	58,642
Net Position, beginning of year	<u>5,262,230</u>
Net Position, end of year	<u><u>5,320,872</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013

Cash Flows From Operating Activities:	
Cash received from customers	\$ 1,627,310
Other operating cash receipts	
Cash payments to suppliers for goods and services	(1,057,825)
Cash payments to employees for services	(320,001)
Net cash provided (used) by operating activities	<u>249,484</u>
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(307,796)
Sale of fixed assets	41,050
Principal paid on notes and loans	(146,115)
Interest paid on notes and loans	(121,353)
Principal received on notes	31,078
Interest received on notes	38,983
New memberships	70,000
Net cash provided (used) by financing activities	<u>(394,153)</u>
Cash flows from investing activities:	
Interest on cash and investments	
(Increase)Decrease in Certificates of Deposit	(128,498)
(Increase) decrease in reserve accounts	10
Net cash provided (used) by investing activities	<u>(128,488)</u>
Net increase (decrease) in cash and cash equivalents	(273,157)
Beginning cash and cash equivalents	561,752
Ending cash and cash equivalents	<u>\$ 288,595</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Income (Loss) from operations	\$ 61,852
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	200,411
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	13,058
(Increase) decrease in inventory	(27,625)
(Increase) decrease in prepaids	1,788
Increase (decrease) in payables	
Net cash provided (used) by operating activities	<u>\$ 249,484</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The water system was originally created as a nonprofit entity. In 1989 the Rural Water Management District No. 15, Osage County, Oklahoma was created under the provisions of Title 82 of the Oklahoma Statutes, Section 1324.1 – 1324.35 and the laws of the State of Oklahoma. All of the assets, easements and property as well as the debt, liabilities and obligations of the nonprofit entity were transferred to Rural Water Management District No. 15, Osage County, Oklahoma. The purpose of the District is to furnish and supply to owners and occupants of property within the corporate limits water, sewer and related facilities and services. In 1998 the District's system increased when it purchased RWD #11, Osage County. On July 1, 2013, the District finalized the purchase of RWD #9, Osage County.

The District is a governed entity administered by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board is comprised of seven elected board members. Of the seven, four are elected as officers of the District.

Basis of Accounting

The accounting policies of Rural Water Management District No. 15, Osage County, Oklahoma conform to the basic principles of governmental accounting and financial reporting set forth by the Governmental Accounting Standards Board.

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Restricted Assets

Restricted assets are cash and cash equivalents, whose use is limited by legal requirements. Restricted cash with fiscal agent represents amounts required by debt covenant to be segregated for debt payments and accrued interest on the notes.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

Inventory

Inventory is stated at the lower of cost or market.

RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 2 - PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended June 30, 2013 was \$200,411. The following is a summary by category of changes in property and equipment:

Category	6/30/12	Additions	Deletions	6/30/13
Land	\$ 100,631	\$	\$	\$ 100,631
Vehicles	167,803	87,950	(73,271)	182,482
Buildings and improvements	831,631			831,631
Water system	6,706,279	78,544		6,784,823
Office equipment	27,517	13,388		40,905
Machinery and equipment	235,425	89,610		325,035
Accumulated depreciation	(1,829,633)	(200,411)	41,381	(1,988,663)
Net	<u>\$ 6,239,653</u>	<u>\$ 69,081</u>	<u>\$ (31,890)</u>	<u>\$ 6,276,844</u>

NOTE 3 - INTANGIBLE ASSETS:

The District acquired certain rights with the Corps of Engineers (Corps) as part of the assets assumed from the nonprofit entity. The rights include:

Storage Space Rights: The District has the right to utilize a fixed percentage of the usable storage space in Skiatook Lake, or approximately 2,000 acre-feet, to impound water for anticipated future demand or need and to withdraw this water from the lake. An associated note payable in the amount of \$563,867 was assumed by the District for these rights. During and upon repayment of this note, the District indefinitely retains the right to the storage space. In prior years, before a change in accounting pronouncements, amortization of \$183,257 was recognized.

Conduit Rights: The District has the right to use a conduit constructed by the Corps for the withdrawal of water from the Skiatook Lake. An associated note payable in the amount of \$703,960 was assumed by the District for these rights. During and upon repayment of the note the District indefinitely retains the right to use the conduit. In prior years, before a change in accounting pronouncements, amortization of \$228,787 was recognized.

Management has performed its annual evaluation of these intangible assets and has determined that no impairments are necessary as the fair market values exceed the carrying costs as of June 30, 2013.

RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENT
YEAR ENDED JUNE 30, 2013

NOTE 4 – NOTES PAYABLE:

Corps Storage Space Usage: This contract was assumed when the District acquired the obligation from the nonprofit entity. Under this contract the District is to reimburse the Corps for the construction costs of the water storage space in Skiatook Lake. No principal was due or interest accrued during the first ten years of the contract. After the first ten years of the contract, in 1995, annual interest payments at 4.012% were paid. Principal payments will commence upon usage of the storage space with the full contract being repaid on or before October 1, 2034. Because the District has not finalized plans to begin using this storage space, the entire balance of this note is classified as noncurrent.

Corps Conduit Usage: This contract was assumed when the District acquired the obligation from the nonprofit entity. Under this contract the District is to reimburse the Corps for the construction costs of the conduit at Skiatook Lake. No principal was due or interest accrued during the first ten years of the contract. After the first ten years of the contract annual interest payments at 4.012% would accrue until usage of the conduit. Principal and interest payments will commence upon usage of the storage space with the full contract being repaid on or before September 2040. The District has begun usage of the conduit and are making annual payments of \$31,570.

OWRB 2002: In November 2002, the District entered into a \$435,000 note payable agreement for construction projects. The interest rate is variable and periodically adjusted by the OWRB. Monthly payments are remitted to a local trustee who administers the semiannual payments to OWRB. The note matures in September 2032. The note is secured by the District's revenues.

OWRB 2007: In May 2007, the District entered into a revolving loan agreement to finance construction projects which were completed in the year ending June 30, 2009 at a cost of \$2,665,758. The note carries an interest rate of 3.78% and payments are made semi-annually over 20 years. The note is secured by the District's revenues.

The following is a schedule of the notes payable at June 30, 2013:

	<u>6/30/2012</u>	<u>Payments</u>	<u>6/30/2013</u>
Corps storage space	\$ 563,867	\$	\$ 563,867
Corps conduit	535,423	31,078	504,345
OWRB	311,750	10,050	301,700
OWRB	<u>2,266,825</u>	<u>104,988</u>	<u>2,161,837</u>
	<u>\$3,677,865</u>	<u>\$146,116</u>	<u>\$3,531,749</u>

RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

NOTE 4 – NOTES PAYABLE (Continued):

The following is a summary of the District's future annual debt requirements:

<u>Year Ending</u>	<u>Payments</u>	<u>Principle</u>	<u>Interest</u>
6/30/14	\$ 245,081	\$ 127,443	\$ 117,638
6/30/15	248,732	135,283	113,449
6/30/16	251,392	140,506	110,886
6/30/17	250,906	146,404	104,502
6/30/18	251,963	152,205	99,758
6/30/19-6/30/23	1,279,311	858,342	420,969
6/30/24-6/30/28	1,317,191	1,046,272	270,919
6/30/29-6/30-33	424,209	169,967	254,242
6/30/34-6/30/38	764,681	688,726	75,955
6/30/39-6/30/41	73,722	66,601	7,121
	<u>\$ 5,107,188</u>	<u>\$ 3,531,749</u>	<u>\$ 1,575,439</u>

NOTE 5 – NOTES RECEIVABLE:

In connection with the conduit contract, the District entered into contracts with the cities of Skiatook, Sand Springs and Sapulpa, which allowed these cities to use the conduit on Skiatook Lake. The District allocates its annual payment to the Corps between these three cities based on their respective usage. Notes receivable bearing an interest rate of 4.012% and a 50-year term has been recognized by the District. The balance of this note at June 30, 2013 is \$504,345.

NOTE 6 - CASH AND CASH EQUIVALENTS:

The District considers all checking and savings accounts (except restricted accounts) and deposits with a maturity of three months or less to be cash equivalents.

NOTE 7 - RETIREMENT PLANS:

The District maintains a retirement plan for its qualified employees. The District contributes 3% to the eligible employees gross wages to this plan. The amount contributed by the District during the year ended June 30, 2013 was \$9,184.

RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENT
YEAR ENDED JUNE 30, 2013

NOTE 8 - INVESTMENTS:

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States government, its agencies or instrumentalities, collateralized or insured certificates of deposit, insured savings accounts or savings certificates, or county, municipal or school district direct debt.

NOTE 9 - DEPOSITS, INVESTMENTS AND COLLATERAL:

At June 30, 2013, all of the District's deposits were covered by the Federal Depository Insurance Corporation or collateralized. The District's primary financial institution has established a deposit and investment account for funds in excess of the insured limits, where funds can be transferred to a securities account carried and administered by a third party investment company.

NOTE 10 - ESTIMATES:

The preparation of financial statements in conformity with the generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 11 - CONTINGENCIES:

As of June 30, 2013 the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 12 - RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. The District has had no claims that exceeded its insurance coverage.

RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENT
YEAR ENDED JUNE 30, 2013

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The District's financial instruments include cash and cash equivalents, certificates of deposit, inventory, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 14 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through December 18, 2013 the date which the financial statements were available to be issued.